ANNUAL REPORT

Riverside
Yarns Limited

1979

RIVERSIDE YARNS LIMITED

Directors	J. BOECKH D.M. DEACON S.E. EDWARDS, Q.C. A. GOLD WM. W. LAIRD, Q.C. E. LAWRENCE B.J. PATERAS, Q.C. J.G. WEIR
Officers	WM. W. LAIRD, Q.C. Chairman E. LAWRENCE President S.E. EDWARDS, Q.C. Secretary R. SONES General Manager O. LANGLAIS, JR. Treasurer-Controller
Head Office and Plant	Cornwall, Ontario
Banker	THE TORONTO DOMINION BANK
Solicitors	FRASER & BEATTY
Transfer Agents and Registrars	NATIONAL TRUST COMPANY Toronto
Auditors	TOUCHE ROSS & CO. Chartered Accountants Cornwall, Ontario
Annual Meeting	April 24th, 1980 - 11:00 a.m. Head Office, Cornwall, Ontario

RIVERSIDE YARNS LIMITED

REPORT TO THE SHAREHOLDERS

Riverside Yarns continued to benefit from measures taken by the Canadian Government in previous years to bring more stability to the domestic market. Shipments of textured yarns in 1979 increased over 1978 levels, although some softening in the circular knit market was evident during the second half of the year. Our product mix continued to diversify particularly into those segments of the market consuming co-mingled yarns.

A 77,000 sq. ft. addition to our Cornwall plant was completed during the third quarter of 1979 and start-up of most of the new high speed texturing facilities was complete by year end. As a result of the addition of new Barmag texturing machines, it is anticipated that a significant portion of our shipments will be directed to export markets during the coming year.

It is becoming more and more apparent to companies operating modern texturing facilities that the technology involved in operation of these high speed machines requires a greater degree of technical and operating skills than was required with the slower speed equipment. Accordingly, your Company significantly strengthened its technical and production capabilities during the year in order to meet these new demands.

Our labour force increased from about 250 employees at the beginning of the period to slightly over 300 by year end. The contract signed with the Union early in 1979 was for a two year period and remains in effect until January 1981.

With the addition of the new texturing facilities, and a significantly strengthened organization, your Company is in a particularly good position to take advantage of growth in the domestic and export marketplace during the coming year.

On behalf of the Board of Directors

E. LAWRENCE
President

RIVERSIDE YARNS LIMITED

(Incorporated under the laws of Ontario)

BALANCE SHEET AS AT DECEMBER 31, 1979

ASSETS	1979	1978
Current		
Cash and short term deposits		
Unrestricted	$ 1,520,469	$ $947,004
Restricted to repayment of current portion of long term debt.	—	400,000
Accounts receivable	143,661	92,517
Inventories	26,948	13,112
Prepaid expenses	399,123	268,425
	2,090,201	1,721,058
Fixed assets - Note 2	9,004,889	5,869,282
Deferred financing charges	28,179	52,778
Other	88,529	92,696
	$11,211,798	$ 7,735,814

LIABILITIES	1979	1978
Current		
Accounts payable and accrued liabilities	$ $965,113	$ $625,086
Dividends payable	30,000	—
Principal due within one year on long term debt - Note 3	3,037,800	1,972,400
	4,032,913	2,597,486
Long term debt - Note 3	6,667,728	4,970,200
	$10,700,641	$ 7,567,686

SHAREHOLDERS' EQUITY	1979	1978
Capital stock - Note 4		
Authorized		
120,000 class A $.50 cumulative convertible voting shares without par value		
1,500,000 common shares without par value		
Issued		
120,000 class A shares 170,000 common shares	358,000	358,000
Retained earnings (deficit)	153,157	(189,872)
	511,157	168,128
	$11,211,798	$ 7,735,814

Approved by the Board

E. LAWRENCE, Director
WM. W. LAIRD, Q.C., Director

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

RIVERSIDE YARNS LIMITED

STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 1979

	1979	1978
Revenues	$ 9,433,231	$ 7,036,002
Processing and administrative expenses	6,548,522	4,723,772
Income before undernoted items	2,884,709	2,312,230
Depreciation	1,669,668	1,357,473
Interest on long term debt	817,413	606,843
Amortization of deferred financing charges	24,599	26,710
Other interest	—	2,403
	2,511,680	1,993,429
Income before income taxes and extraordinary item	373,029	318,801
Income taxes - Note 6	144,000	130,000
Income before extraordinary item	229,029	188,801
Extraordinary item - Note 5	144,000	130,000
Net income	$ 373,029	$ 318,801
Earnings per common share - Note 4(e)		
Income before extraordinary item	$ .99	$ .76
Net income	$ 1.84	$ 1.52

STATEMENT OF RETAINED EARNINGS

	1979	1978
Deficit at beginning of year	$ 189,872	$ 508,673
Net income	373,029	318,801
	183,157	189,872
Dividends declared	30,000	—
Retained earnings (deficit) end of year	$ 153,157	$ (189,872)

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

RIVERSIDE YARNS LIMITED

STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 1979

	1979	1978
Working capital derived from		
Operations		
Income before extraordinary item	$ 229,029	$ 188,801
Add depreciation, amortization and income taxes which do not involve working capital	1,838,267	1,514,183
	2,067,296	1,702,984
Transfer of restricted cash and short term deposits to current assets	—	200,000
Proceeds from long term debt	4,861,028	3,626,000
Decrease in other assets	67,200	27,600
	6,995,524	5,556,584
Working capital applied to		
Dividends	30,000	—
Additions to fixed assets	4,805,275	1,065,735
Additions to other assets	63,033	120,296
Reduction of long term debt	3,163,500	4,682,075
	8,061,808	5,868,106
Increase in working capital deficiency	1,066,284	311,522
Working capital deficiency at beginning of year	876,428	564,906
Working capital deficiency at end of year	$1,942,712	$ 876,428

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

RIVERSIDE YARNS LIMITED
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1979

1. Summary of accounting policies

   a) Depreciation

      The net book value of fixed assets on hand at December 31, 1976 and the cost of subsequent additions are depreciated on the straight line basis at 20% per year.

   b) Deferred financing charges

      Financing charges are amortized over the term of the related debt.

   c) Investment tax credit

      The investment tax credit is recognized in the year it is claimed for tax purposes as a reduction of the current tax provision.

   d) Leases

      Leases entered into prior to January 1, 1979 are accounted for as operating leases regardless of whether or not they qualify as capital leases.

2. Fixed assets

	1979			1978
	Cost	Accumulated depreciation	Net	Net
Machinery and equipment	$13,001,280	$4,112,966	$8,888,314	$5,803,311
Leasehold improvements	150,453	33,878	116,575	65,971
	$13,151,733	$4,146,844	$9,004,889	$5,869,282

3. Long term debt

	1979	1978
Secured		
Term bank loans, at bank prime rate plus 1/2%, through to December 31, 1981 and then, prime plus 3/4% to December 31, 1984. Each payable in sixty monthly instalments	$8,555,528	$5,092,600
8% debenture, due on December 15, 1982 with blended monthly principal and interest payment of $12,500	400,000	1,000,000
Unsecured		
8% agreement	—	100,000
10 1/2% redeemable subordinated debentures, due October 31, 1980	750,000	750,000
	9,705,528	6,942,600
Less amount due within one year	3,037,800	1,972,400
	$6,667,728	$4,970,200

   a) The term bank loans and the 8% debenture are secured by the Company's fixed assets and by a floating charge on the Company's undertaking and its other property and assets, both present and future, subject to the right of the Company to deal with its property and assets in the ordinary course of business.

b) The holders of the 10 1/2% subordinated debentures are entitled to require prepayment of $500 principal for each 250 share purchase warrants exercised (see Note 4 (c)).

c) The long term debt is repayable as follows:

1980	$3,037,800
1981	2,297,800
1982	2,029,200
1983	1,096,500
1984	1,244,228
	$9,705,528

4. Capital stock

a) According to the terms of the secured debentures the Company may not, without prior written approval:

i) Declare or pay any dividends on or make any distribution in respect of its common shares.

ii) Make any change in its authorized or issued capital stock except in the manner outlined in b and c below.

b) The class A shares are convertible into common shares on the basis of one common share for each two class A shares converted.

c) Share purchase warrants issued with the 10 1/2% redeemable subordinated debentures entitle the holders thereof to purchase in the aggregate 187,500 common shares at a price of $2.00 per common share up to October 31, 1980.

d) After payment of the dividend accrued at December 31, 1979, dividends on class A shares are in arrears in the amount of $3.50 per share totalling $420,000.

e) Fully diluted earnings per common share would be $.55 before extraordinary item and $.89 after extraordinary item.

5. Extraordinary item

The extraordinary item of $144,000 (1978 - $130,000) results from the income tax reduction realized by claiming capital cost allowance in excess of depreciation recorded in the accounts.

6. Income tax

The Company has available an excess of undepreciated capital cost over net book value of fixed assets less other items deferred in the accounts but already claimed for tax purposes of approximately $365,000 (1978 - $690,000). The tax effect has not been recorded in the accounts.

7. DuPont agreement

The Company has entered into an agreement with DuPont Canada Inc. which commits the Company's processing facilities exclusively to DuPont until mid 1982, with options by DuPont to extend the agreement. DuPont may terminate the agreement under certain specified circumstances. The Company has no right of termination.

The Company has agreed to use a specific portion of the cash received under this agreement for repayment of fixed asset financing.

8. Commitments

The Company rents its land and buildings under a thirty year lease effective September 1, 1975 at an annual rent of approximately $1,100,000, of which approximately $540,000 pertains to the 1979 expansion of the premises. The rent may be adjusted depending on any changes in the lessor's financing arrangements. A director of the Company is the beneficial owner of 32.1% of the lessor company's outstanding equity shares.

This lease qualifies as a capital lease. If the Company accounted for this lease as a capital lease rather than an operating lease the following changes in the financial statements would occur.

i) Assets under capital lease would be shown on the balance sheet in the amount of $7,499,000 (1978 - $4,199,000) less accumulated amortization of $533,387 (1978 - $379,439).

ii) Obligations under capital lease in the amount of $7,442,754 (1978 - $4,162,201) would be included in liabilities.

iii) Although capitalization of the lease would result in an increased charge to operations of approximately $133,000 (1978 - $127,000), as a result of the agreement referred to in Note 7, net income for the year would not be affected.

9. Remuneration of directors and officers

Remuneration of directors and senior officers amounted to $214,099 (1978 - $186,299).

AUDITORS' REPORT

The Shareholders
Riverside Yarns Limited

We have examined the balance sheet of Riverside Yarns Limited as at December 31, 1979 and the statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Cornwall, Ontario
February 28, 1980

TOUCHE ROSS & CO.
Chartered Accountants